OILEXCO INCORPORATED

OILEXCO

1999 ANNUAL REPORT

Corporate Profile

Oilexco Incorporated is a Canadian Energy company committed to achieving growth and creating shareholder value through oil and gas exploration in western Canada and the southern United States.

Oilexco's domestic exploration program targets high-quality hydrocarbon reserves and production in four focus areas: the Edson area of west central Alberta; east central Saskatchewan; Monroe and Conecuh Counties, Alabama; and Montrail County, North Dakota. The Company produces oil and gas in Saskatchewan, Alabama and Alberta.

The common shares of Oilexco Incorporated are listed for trading on the Canadian Venture Stock Exchange and trade under the symbol 'OIL'.

All dollars are expressed in Canadian funds unless otherwise stated.

Table of Contents

Highlights 1999

Financial and Operational Highlights

($000s, except per share data)

Financial	***1999***	*1998*
Gross Revenues	**1,519**	1,173
Funds from Operations	**165**	(91)
Per share	**0.01**	Nil
Net Earnings (Loss)	**(77)**	(3,950)
Per share	**(0.00)**	(0.23)
Capital Expenditures	**386**	1,778
Operating Line of Credit	**25**	Nil
Shareholders' Equity	**4,483**	4,560
Common Shares Outstanding (000s)	**17,842**	17,842
Trading		
High	**0.50**	0.63
Low	**0.12**	0.15
Volume (000s of shares)	**6,196**	13,394

Production		
Average Barrels of Oil Equivalent Per Day	**114.3**	89.9
Exit Rate Barrels of Oil Equivalent Per Day	**130.4**	91.5
Reserves Proven + Probables		
Crude Oil and NGL's (Mbbls)	**303**	375
Natural Gas (Bcf)	**3.76**	3.7
Barrels of Oil Equivalent (MBOE)	**679**	745

1999 Highlights

- Reported positive cash flow for the year
- Signed a second crude oil lifting contract with the Republic of Iraq under the United Nations Oil for Food Program in February, 1999
- Purchased and later sold at a profit, the majority of the outstanding units in a limited partnership
- Finalized new partnership agreements at Castleberry in Alabama, recovering 25% of costs to date while retaining 37.5% interest in any discoveries

Message to Shareholders

In 1999, Oilexco reported positive cash flow due to increased production of oil and natural gas from its North American operations while maintaining steady or lower operating costs. The Company also reported income from its second crude oil lifting contract with the Republic of Iraq. This positive performance occurred in a year of wildly fluctuating commodity prices in a financial markets environment that has turned away from funding resource companies.

Commodity prices for oil and natural gas reached near historic lows in the first quarter of 1999, rebounding in the third quarter to near term averages and then increasing above near term averages by year-end. This trend continues in the first quarter of 2000 with the price of crude oil and natural gas reaching 10-year highs. Activity levels in the Canadian oil and gas industry were severely impacted by the low commodity prices of the first six months of 1999. As the prices of crude oil and natural gas rebounded in the second half of the year, activity level in the Canadian oil and gas sector increased cautiously. Operating costs in the western Canadian oil industry generally remained at 1998 levels. Fluctuating commodity prices required innovation and flexibility to keep the Company debt free and to create opportunities to increase shareholder value.

The Canadian dollar was relatively stable in 1999 compared to the volatility experienced in 1998. Stability in the currency allowed for more predictable revenue streams from oil production at wells owned by the Company's wholly owned subsidiary Oilexco America, Inc.

Internationally, changes in OPEC production policies in March 1999 caused crude oil prices to increase to current levels. OPEC's announcement in March 2000 to modestly increase crude oil production stabilized crude oil prices; however, it is impossible to predict the future policy of the cartel and its subsequent impact on pricing. The United Nations has neither lifted nor relaxed the conditions for the removal of sanctions against the Republic of Iraq. While the sanctions continue, economic opportunity for Oilexco with that country is limited to continuing its program of crude oil lifting contracts through the United Nations Oil for Food Program. The continuing sanctions impact the Company's ability to finalize post sanctions development with Iraq.

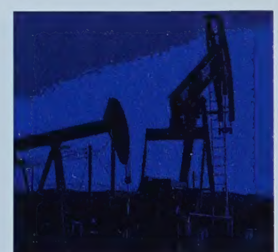
Capital markets have not reacted favourably to the Canadian oil and gas industry. In early 1999, markets were influenced by the drop in commodity prices and later by the phenomenal growth exhibited in technology and Internet stocks. These two factors, combined

with a number of corporate failures within the Canadian oil and gas industry, caused investors to question equity returns in the resource sector. The flight of capital from the industry has continued despite the benefits accruing to the industry from commodity prices currently experiencing 10-year highs.

Within the constrained market conditions of the 1999 Canadian oil and gas industry and the opportunities that these conditions provided to an energetic company, Oilexco shifted its emphasis for growth opportunities back to western Canada. The Company negotiated a large exploration joint venture with a senior Canadian oil and gas company. Oilexco's focus in the joint venture program was toward natural gas, as management believes that the increase in pipeline capacity for export of natural gas will cause western Canadian natural gas prices to increase over the long term, approaching the benchmark Gulf Coast prices in the United States. Of key importance in this joint venture was a portfolio of drilling projects which would generally be unavailable to small companies. Oilexco committed to finance up to $40 million worth of drilling on a best efforts basis. In December 1999, after lengthy negotiations with investors, Oilexco was unable to conclude the financing of its venture. Management believes the change in attitude of the capital markets towards the oil and gas sector severely impacted its ability to finance this project.

In 1999, Oilexco focused its drilling and production efforts in the Gulf Coast region on its Alabama properties by disposing of its interests in Louisiana and Mississippi. This decision follows Oilexco's significant oilfield discovery made at Monroe County, Alabama in 1998 and an evaluation of its prospect inventory in Alabama.

Oilexco continued to pursue activities in Iraq in 1999 and views this commitment as a long-term project. Under the United Nations Oil for Food Program, the Company was awarded a second lifting contract for Kirkuk light crude oil, which was subsequently sold at a profit. Negotiations are currently underway for a third contract under Phase VIII of the Oil for Food Program. In addition to the crude oil lifting contracts, Oilexco continues to pursue post sanctions development projects as well



as activities permitted under the United Nations mandated sanctions regime.

In December 1999, Oilexco purchased the majority of the outstanding limited partnership units of an oil and gas partnership. In January 2000, the assets of the partnership were sold with proceeds distributed to the unit holders. Oilexco profited from this transaction financially by receiving income greater than the purchase price of the units.

Stock prices in the oil and gas sector have not tracked the increase in commodity prices. Shares of Oilexco reflect this trend and parallel the sector. Trading volumes in Oilexco for 1999 were below average when compared to previous years.

In 2000, Oilexco will focus its exploration efforts in Alabama and Saskatchewan. Plans are underway to drill an exploratory well at Castleberry in May. Additionally, Oilexco plans projects in Saskatchewan, targeting light oil on Company acreage and through farm-ins to third parties. In Iraq, Oilexco will continue to pursue crude oil liftings under the Oil for Food Program. These projects will be funded by cash flow.

Oilexco is currently evaluating several candidates for merger. Candidates being evaluated by the Company are similar in size but without active management. Oilexco believes that a successful merger will enhance shareholder value in the long term by virtue of new projects in which the Company can participate to derive increased cash flow. Management believes this is an important strategy at a time when capital markets are not receptive to financing the junior oil and gas sector.

In closing, I would like to express my thanks to the staff, consultants and Board of Directors of Oilexco for their dedication and creativity in surviving what has been a difficult year for the Canadian oil and gas industry. I congratulate Don B. Copeland on his appointment to the position of Chairman of the Board of Oilexco. In May 1999, the Company bid farewell to Jack Perraton and welcomed Jay Zammit to the Board of Directors. Jay, a partner at Burstall Ward law firm of Calgary, Alberta is an expert in securities law. We are pleased to welcome him to the Board and are enjoying his contributions and counsel. The talents and expertise of this team enable the Company to pursue its diverse and exciting projects in challenging times.

On behalf of the Board of Directors,

Arthur S. Millholland

President and Chief Executive Officer

INTERNATIONAL INITIATIVES:

REPUBLIC OF IRAQ

Oilexco began a dialogue with the Government of Iraq in 1997 to determine the feasibility of establishing a business relationship between the Company and Iraq while following the United Nations resolutions imposed on Iraq after the Gulf War. From these negotiations, two business initiatives have evolved.

Production

In 1998, Oilexco became the first Canadian company awarded a crude oil lifting contract with the Republic of Iraq under the United Nations Oil for Food Program.

The Company was awarded a second crude oil lifting contract for 1.9 million barrels of Kirkuk light crude oil in February 1999. This oil was subsequently sold to a Caribbean refinery for a profit. Production of crude oil by the oil industry in Iraq has been impacted in the past year by political factors as well as by the deteriorating condition of the equipment used for oil production. Consequently, the Republic of Iraq is producing less crude now than it had been in 1999. Oilexco's proactive stand on supporting relief measures for the citizens of Iraq is greatly appreciated by the Iraqi people. The Company hopes to be awarded additional crude oil lifting contracts under Phase VIII of the United Nations Oil for Food Program, commencing May 2000.

Oilfield Development Projects

Oilexco has identified two oilfield development projects in the Republic of Iraq.

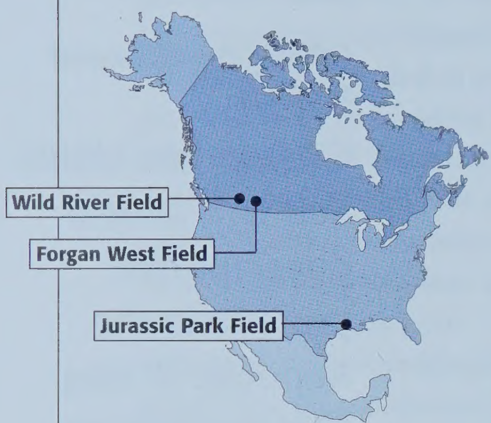
These two oilfields have been delineated, but have never been developed and placed on production. Discussions for the awarding of these development projects continue but final negotiations will not occur until the sanctions imposed on Iraq are lifted.

Operations Review

NORTH AMERICAN INITIATIVES:

Producing Properties

Oilexco currently derives its production from three properties:



- ***Jurassic Park Field*** in Alabama which produces oil and gas from the Smackover Formation
- ***Forgan West Field*** in west Saskatchewan which produces from the Lower Cretaceous Viking Formation
- ***Wild River Field*** near Edson, Alberta which produces from the Viking Formation

Reserves

Oilexco's total proven reserves at January 1, 2000, as evaluated by Dobson Resource Management were 169,000 barrels of oil and natural gas liquids and 1.38 billion cubic feet of natural gas; proven and probable oil and gas reserves for 1999 were 303,000 barrels of oil and liquids and 3.76 billion cubic feet of gas, for a total of 679,000 BOE, as summarized below:

Reserves

	Oil Mbbls	*Gas Mmcf*	*NGLs Mbbls*
Proven Producing	122	488	17
Proven Non-producing	0	293	9
Proven Undeveloped	0	599	20
Total Proven	122	1,380	46
Probables	47	2,381	88
Total Proven + Probables	169	3,761	134

The estimated present value of future net revenues, using constant prices and costs, before income tax and overhead costs attributable to Oilexco's net reserves are as follows:

Estimated Present Value *discounted at*	*0% (000s)*	*10% (000s)*	*15% (000s)*	*20% (000s)*
Proven Producing	2,831	2,172	1,975	1,821
Proven Non-producing	501	324	269	228
Proven Undeveloped	1,040	516	396	313
Total Proven	4,372	3,012	2,640	2,362
Probables	6,029	3,296	2,960	2,268
Total Proven + Probables	10,401	6,308	5,330	4,630

Note: It should not be assumed that the discounted value of the estimated future net revenues is representative of the fair market value of the estimated petroleum and natural gas reserves.

Exploration Properties

Vocation Field, Monroe County, Alabama

Oilexco is participating as to a 12.5% working interest in an exploration and development program on 3,840 gross acres of petroleum leases within and surrounding the Vocation Field in Monroe County, Alabama. The primary reservoir in the field is the Jurassic Smackover formation, which produces 52° API sweet crude and is one of the most prolific reservoirs in the Gulf Coast region.

In 1997, Oilexco and its partners drilled the first successful well at the Vocation Field. A planned workover on this well to reduce water production was completed in the third quarter of 1999. The workover was moderately successful and the well was placed back on production, currently producing on average 50 Bbls/d. In the third quarter of 1999, Oilexco declined to participate in a risky exploratory well in the project area. This well was drilled and abandoned at no cost to the Company.

In July 1998, Oilexco and its partners completed the second successful well at Monroe County. A significant discovery, the Blacksher #1 produces from the Smackover formation. In 1999, a planned gas conservation scheme was implemented, increasing production at the well to the maximum state-allowable of 600 Bbls/d. Production from this well has been stable to year-end, showing no decline or water production.

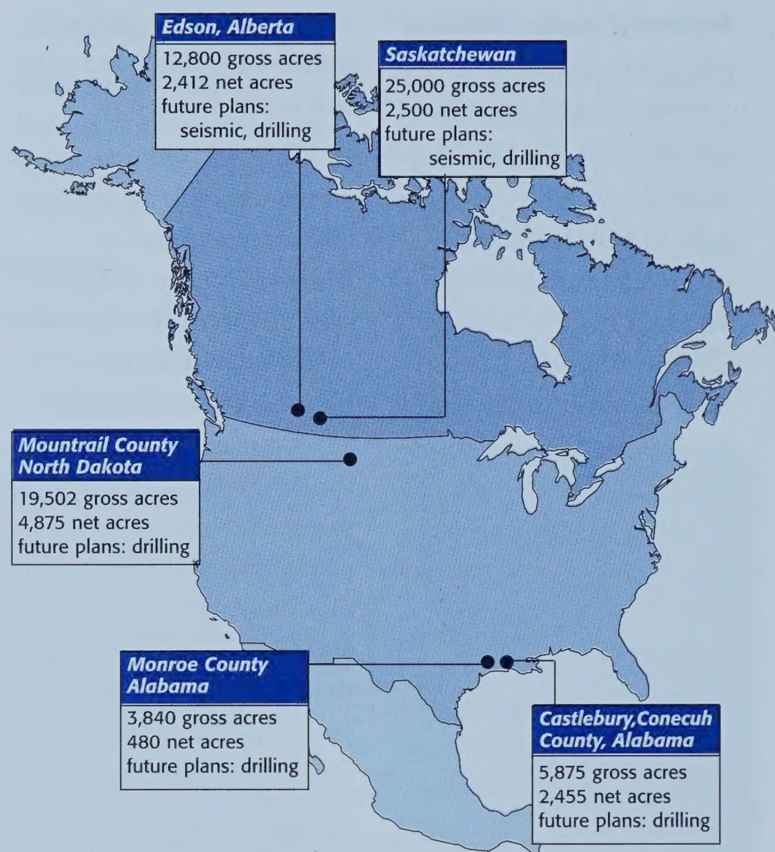
Oilexco continues to encourage its partners to drill an offset well to the Blacksher #1 discovery, rather than pursuing risky exploratory drilling on marginal prospects identified on 3-D seismic in the project area.

Castleberry, Conecuh County, Alabama

In 1997, Oilexco acquired a 50% working interest in the Castleberry, Alabama area, approximately 18 miles east of the Vocation Field. The area currently totals 5,877 gross acres, of which 4,910

Operations Review

NORTH AMERICAN INITIATIVES:



(2,455 net) are under lease. The current leasehold results from a 32 square mile 3-D seismic survey acquired in 1997 to evaluate an original 16,950-acre lease block. Interpretation of the 3-D seismic survey identified five suitable drilling prospects.

In 1999, no activities were undertaken on the Castleberry project. During the year, Oilexco finalized an agreement with a third party to pay 50% of Oilexco's cost to drill the first well at Castleberry to earn 25% of Oilexco's interest after casing point. The third party also reimbursed Oilexco for 25% of costs expended to date, leaving Oilexco with a 37.5% interest in any discovery and enabling the Company to recover some of its investment in the project. Plans are underway to drill the first well on this property in April 2000.

Subsequent to year-end, Oilexco reached an agreement with an additional third party to pay 50% of Oilexco's original working interest for 25% (net 12.5%) interest thereafter. This party has the option to earn additional interests for the same terms on three additional prospects identified on 3-D seismic.

Montrail County, North Dakota

Oilexco began its drilling program in this area in 1993. In 1997, the Company entered into an agreement with a new partner wherein the partner agreed to spend $350,000 U.S. to earn half of Oilexco's original interest in the lands it then held. The partner acquired additional leases in the area and seismic was shot, which confirmed a new location. Oilexco is currently soliciting a third party to drill this property.

LAND						
		1999			1998	
	Gross acres	Net acres	Interest Average	Gross acres	Net acres	Interest Average
CANADA						
Alberta	10,400	1,907	18.0	20,800	4,825	23.0
Saskatchewan	42,244	34,746	82.3	42,244	34,746	82.3
UNITED STATES						
Alabama	9,715	2,935	30.2	9,715	2,935	30.2
North Dakota	22,553	5,638	25.0	19,502	4,876	25.0
Louisiana	0	0	0	669	64	9.5
TOTAL	84,912	45,226	53.3	92,930	47,382	51.0

Wild River, Edson, Alberta

Oilexco has successfully drilled a number of Viking gas wells in this area since 1993. In 1997, the Company reduced its working interest by farming out 50% of its holdings to a major industry player. In 1999, production and processing facilities upgrading was completed and the shut-in gas well was tied into the facilities in the fourth quarter. There is no additional activity planned for Wild River in 2000.

Sundance and Oldman, Edson, Alberta

Oilexco sold its interests in the Sundance and Oldman properties in the fourth quarter of 1999. Severe production problems at Sundance related to paraffin plugging made production of these wells uneconomic and the remaining properties were not strategic to the Company's interests in the area.

Humbolt, Saskatchewan

Oilexco originally acquired 301,549 gross acres (60,800 net) of land in east central Saskatchewan in 1997. Upon the completion of a geochemical survey in 1998 to evaluate the lands and identify hydrocarbon anomalies, the Company relinquished 276,549 acres of the total land holdings and retained a 100% interest in 25,000 acres of the most prospective land. In 1999, Oilexco consolidated its interest in this property. Additional seismic may be shot in 2000 to further evaluate the property.

Management's Discussion and Analysis

Industry Overview

In 1999, oil prices rebounded in the second half of the year from historic lows in the first six months. This movement in prices, sparked by a change in OPEC policy regarding supply levels and short-term inventory declines, continues to cause price volatility in the oil industry. The impact of this change in policy has been a strengthening in the price of crude oil over the past nine months to levels averaging $22 U.S. to $27 U.S. per barrel of oil. Activity levels in the Canadian oil and gas industry that had been severely impacted by the low prices of 1998 and early 1999 were slow to rebound. This coupled with an investment industry, which has hardened against resource stocks in the short term, at least, has proven a difficult hurdle for junior oil and gas companies. Oilexco has aggressively tried to meet the challenges of 1999.

Financial Review

Oilexco had oil and gas revenues before royalties of $1,117,472 in 1999, a 73% increase from $646,155 in 1998. The increase is due to the rising price of crude oil on the world market, as well as increased production from the two Vocation Field wells. Sales of oil, gas and liquids averaged 114 BOE per day in 1999 resulting from workovers and the addition of new production in the year, an increase of 29% from 89.9 BOE per day in 1998. Overall, the 1999 exit rate of production was 130.4 BOE per day compared to 91.5 BOE in 1998.

Other revenues in 1999 totalled $541,502 in 1999, a slight decrease from $587,891 in 1998, the result of lower refining margins available for the second crude oil lifting contract from Iraq. The revenue earned on the crude oil lifting contracts comprises the difference between the cost set by the United Nations for the crude oil contract and the price at which the Company can sell the oil.

In 1999, Oilexco finalized an agreement with a third party to pay 50% of Oilexco's drilling costs to drill the first well at Castleberry, expected to be drilled in May, 2000. As part of this agreement, the third party reimbursed Oilexco for 25% of Oilexco's costs to date, providing a cost recovery of $300,000 in U.S. funds.

Operating expenses in 1999 increased by 20% to $353,006 compared to $293,015 in 1998. The increase is attributable to operations in Alabama.

The Company reported $104,049 in prospect evaluation expense in 1999, a decrease of 72% from $368,096 in 1998. Management chose to consolidate existing prospects in 1999 rather than seek out new areas. Royalties paid in 1999 of $140,122 reflect an increase from $61,206 in 1998, the result of increased production from the Blacksher #1 well.

General and administrative expenses increased in 1999 to $774,700 from $582,341 in 1998, due primarily to joint venture financing expenses. In 1999, depletion and

depreciation decreased to $363,794 as compared to $3,858,774 due primarily to a ceiling test write down in 1998. Depletion and depreciation expense in 1999 arises from production of oil and gas assets. Depletion and depreciation in 1998 includes a write down of $1,135,000 to Canadian properties and $2,241,900 to United States properties.

Funds from operations in 1999 increased to $165,094 from a deficit of $91,158 in 1998. The increase in funds in 1999 is attributable to the second crude oil lifting contract with Iraq as well as an increase in oil and gas production in Alabama. Net losses for 1999 and 1998 were $76,566 and $3,949,932 respectively.

Liquidity and Capital Resources

Oilexco's total capital program for 1999 amounted to $386,006 and was funded from internal cash flow, working capital and the sale of certain properties. In December 1999, Oilexco purchased the majority of the outstanding limited partnership units in an oil and gas partnership for approximately $1,100,000. The assets of the partnership were subsequently sold with proceeds distributed to the unit holders, bringing approximately $1,200,000 in gross proceeds to Oilexco.

During 1999, no options of the Company were exercised. Assuming all outstanding options and share purchase warrants are exercised, the Company would realize gross proceeds of approximately $1,188,050.

In 2000, Oilexco intends to finance its capital program through internal cash flow.

In 1999, Oilexco maintained its credit facility at $500,000, of which $25,000 had been utilized at year-end. The Company had working capital of $153,475 at December 31, 1999, and no long-term debt.

Share Capital

Shares Outstanding
December 31, 1999

Issued	17,842,388
Options	1,596,000
Brokers' Warrants	0
Share Purchase Warrants	1,000,000
Fully Diluted	20,438,388

Corporate Stewardship

Oilexco's Board of Directors comprises five members, three of whom are outside directors. The Company's audit committee consists of three members, two of whom, including the Chairman, are external directors.

In 1999, Oilexco appointed an external director as Chairman of the Board of the Company. The President of the Company continues to hold the position of Chief Executive Officer of Oilexco. This change in board responsibility was enacted to comply with the Stock Exchange guidelines on corporate governance.

Safety, Environmental and Risk Management

Oilexco endeavours to conduct its operations in a safe and environmentally responsible manner. The Company has prepared, and uses, safety, environmental risk management and emergency response manuals developed specifically for its operations. To date, Oilexco has had no material environmental incidents or lost time accidents. As well, the Company reviews future abandonment and site restoration costs annually.

The Company acknowledges risk potential with travel to the Republic of Iraq. Reasonable and prudent precautions are taken when visiting that country.

Management's Report

Management of the Company has prepared the consolidated financial statements and the information contained therein. The consolidated financial statements have been prepared in accordance with accounting principals generally accepted in Canada and, where appropriate, reflect management's best estimates and judgements under the circumstances. A system of internal accounting control is maintained, consistent with reasonable costs, to provide reasonable assurance that assets are adequately safeguarded and that financial information is appropriately maintained for the preparation of reliable financial statements.

The Company's independent auditors, Arthur Andersen LLP, who are appointed by the shareholders, conduct an audit in accordance with generally accepted auditing standards to allow them to express an opinion on the consolidated financial statements. The Audit Committee of the Board of Directors, with two of the three members not being Officers of the Company, meets with management and Arthur Andersen LLP to review these statements and related financial reporting matters prior to submitting the consolidated financial statements to the Board of Directors.

Arthur S. Millholland, P. Geol.,
President and Chief Executive Officer

Brian L. Ward
Chief Financial Officer

Auditors' Report

To the shareholders of Oilexco Incorporated:

We have audited the consolidated balance sheets of Oilexco Incorporated as at December 31, 1999 and 1998 and the consolidated statements of loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principals used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1999 and 1998 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principals.

Calgary, Alberta
April 20, 2000

Arthur Andersen LLP

Arthur Andersen LLP
Chartered Accountants

Consolidated Balance Sheets

	December 31 1999	December 31 1998
Assets		
Current Assets		
Cash	$ 79,325	$ 610,700
Accounts receivable	1,558,353	139,230
Other	52,282	67,857
	1,689,960	817,787
Property, Plant and Equipment *(Note 3)*	4,447,365	4,721,296
	$ 6,137,325	$ 5,539,083
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities	$ 1,511,485	$ 871,002
Operating line of credit *(Note 4)*	25,000	-
	1,536,485	871,002
Future Site Restoration Costs	117,841	108,516
Shareholders' Equity		
Share capital *(Note 5)*	16,620,098	16,620,098
Deficit	(12,137,099)	(12,060,533)
	4,482,999	4,559,565
	$ 6,137,325	$ 5,539,083

Approved on behalf of the Board:

Arthur S. Millholland,
Director

Brian L. Ward,
Director

The accompanying notes form an integral part of these financial statements.

Consolidated Statements of Loss and Deficit

For the year ended December 31	*1999*	*1998*
Revenues		
Oil and gas sales	$ 1,117,472	$ 646,155
Royalties	(140,122)	(61,206)
Other *(Note 7)*	541,502	587,891
	1,518,852	1,172,840
Expenses		
Operating	353,006	293,015
General and administrative	774,700	582,341
Prospect evaluation *(Note 8)*	104,049	368,096
Depletion and depreciation *(Notes 2&3)*	363,794	3,858,774
Interest	2,709	4,737
	1,598,258	5,106,963
Loss before taxes	(79,406)	(3,934,123)
Income taxes *(Note 6)*	-	-
Capital taxes	(2,840)	15,809
Loss	(76,566)	(3,949,932)
Deficit, beginning of year	(12,060,533)	(8,110,601)
Deficit, end of year	$ (12,137,099)	$ (12,060,533)
Loss per share *(Note 5)*	$ -	$ (0.23)

The accompanying notes form an integral part of these financial statements.

Consolidated Statements of Cash Flow

For the year ended December 31	*1999*	*1998*
Cash Flow from Operating Activities		
Loss	$ (76,566)	$ (3,949,932)
Add items not affecting cash flow		
Depletion and depreciation	363,794	3,858,774
Gain on sale of assets *(Note 7)*	(122,134)	-
Funds flow from operations	165,094	(91,158)
Change in non-cash working capital	(115,244)	442,783
	49,850	351,625
Cash Flow from Financing Activities		
Common shares issued	-	500,000
Share issue costs	-	(83,088)
Stock options exercised	-	13,500
Increase in operating line of credit	25,000	-
	25,000	430,412
Cash Flow from Investing Activities		
Additions to property, plant and equipment	(386,006)	(1,777,658)
Proceeds on dispositions of property, plant and equipment	305,468	896,040
Change in non-cash working capital	(525,687)	99,241
	(606,225)	(782,377)
Decrease in cash	(531,375)	340
Cash, beginning of year	610,700	611,040
Cash, end of year	$ 79,325	$ 610,700
Interest paid	$ 2,709	$ 4,737
Income taxes paid	$ -	$ -
Funds flow from operations per share	$ 0.01	$ -

The accompanying notes form an integral part of these financial statements.

December 31, 1999 and 1998

1. Future Operations

Oilexco Incorporated and its wholly-owned subsidiary Oilexco America, Inc. (together "the Company") are involved in the exploration, development and production of oil and gas in North America and internationally.

The Company requires the continuing financial support of its lenders and additional financing in order to fund its existing obligations, ongoing exploration and development programs and commitments. Management intends to raise the required financing through a combination of equity issues, cash flow, bank financing, asset rationalizations, farm-outs and other means.

2. Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Oilexco Incorporated and its wholly-owned subsidiary Oilexco America, Inc.

Use of Estimates

These financial statements are prepared in accordance with Canadian generally accepted accounting principles which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements, and reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Property, Plant and Equipment

The Company follows the full cost method of accounting for oil and gas properties and related expenditures, whereby all costs relating to the exploration for and development of petroleum and natural gas reserves are capitalized and accumulated in cost centres on a country by country basis. Such costs include land acquisition, geological and geophysical,drilling, equipment and facilities, carrying charges on non-producing properties and related overhead. Unevaluated properties are assessed periodically to ascertain whether impairment has occurred. When proven reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to costs subject to depletion. The Company has two cost centres, Canada and the United States.

Proceeds from the sale of oil and gas properties are applied against capitalized costs, with no gain or loss recognized, unless such a sale alters the rate of depletion and depreciation by 20% or more.

The costs related to each cost centre are depleted and depreciated on the unit-of-production method based on the estimated proven reserves before royalties of each country. Oil and gas reserves and production are converted into equivalent units based upon estimated relative energy content.

The total capitalized costs less accumulated depletion and depreciation, accrued future site restoration costs and deferred income taxes of all cost centres is limited to an amount equal to the estimated future net revenue (after deducting future site restoration costs) from proven

reserves at year end prices and costs, plus the cost less impairment of unevaluated properties of all cost centres, less general and administrative expenses, financing costs and income taxes. On application of this test, no write-downs were required in 1999. In 1998, a write-down of the Canadian cost centre of $1,135,000 and a write-down of $2,241,900 of the United States cost centre were required.

Estimated future site restoration costs are provided on the unit-of-production method based on the estimated proven reserves. Costs are based on engineering estimates in accordance with current legislation and industry practices. The annual charge is recorded as additional depletion and depreciation. Actual expenditures are charged against the accumulated provision as incurred.

Other fixed assets are depreciated on a declining balance basis at 20% per year.

Joint Interest Operations

Substantially all of the Company's oil and gas activities are carried out jointly with others. These consolidated financial statements reflect only the Company's proportionate interest in such activities.

Income Taxes

The Company follows the deferral method of tax allocation accounting for timing differences between taxable and accounting income. Timing differences arise mainly due to capital cost allowance and resource deductions claimed by the Company for tax purposes in amounts differing from depletion and depreciation expense.

Foreign Currency Translation

The accounts of Oilexco America, Inc. are translated using the temporal method. Under this method monetary assets and liabilities are translated at the year-end exchange rate; non-monetary assets and liabilities are translated at historical exchange rates. Revenue and expenses are translated at the weighted average exchange rate for the year. Exchange gains and losses from the translation of monetary items are included in the consolidated statement of loss.

Prospect Evaluation Expenses

The Company expenses costs incurred in the evaluation and development of potential business ventures until related business arrangements are consummated. Project related costs incurred thereafter are capitalized and amortized over the life of the project.

Stock-Based Compensation Plan

The Company has a stock-based compensation plan, which is described in Note 5. No compensation expense is recognized for this plan when stock options are issued to employees. Any consideration paid by employees on exercise of the stock options is credited to share capital.

Financial Instruments

The fair value of cash, accounts receivable, accounts payable, accrued liabilities and the operating line of credit approximate their carrying values.

3. Property, Plant and Equipment

	1999	1998
Oil and gas properties	$ 17,050,067	$ 16,988,602
Tax benefits renounced to flow-through shareholders	(563,625)	(563,625)
Other	94,212	75,139
	16,580,654	16,500,116
Accumulated depletion and depreciation	(12,133,289)	(11,778,820)
	$ 4,447,365	$ 4,721,296

During the year the Company capitalized $nil (1998 - $122,024) of administrative overhead to oil and gas properties. The write-downs referred to in Note 2 have been included in accumulated depletion and depreciation.

4. Operating Line of Credit

The Company has an available line of credit of $500,000 which bears interest at prime plus 1.25% per annum. The loan is collateralized by a fixed and floating charge debenture in the principal amount of $1,000,000 over all assets and undertakings of the Company, a general security agreement, an environmental indemnity and an assignment of accounts receivable. At December 31, 1999, $25,000 (1998 - $nil) was outstanding on this line of credit. The line of credit is reviewed annually by the bank for renewal. If the line of credit is not renewed, then any balances outstanding are due and payable on demand.

5. Share Capital

a) Authorized

i. Unlimited number of voting Common Shares without nominal or par value
ii. Unlimited number of Preferred Shares issuable in series

b) Issued

Common Shares	*Number*	*Consideration*
Balance, December 31, 1997	16,812,388	$16,189,686
Issued for cash	1,000,000	500,000
Share issue costs	-	(83,088)
Stock options exercised	30,000	13,500
Balance, December 31, 1998 and 1999	17,842,388	$16,620,098

c) Per Share Data

Basic earnings and cash flow from operations per share are calculated based on the weighted average number of 17,842,388 (1998 – 17,364,580) shares outstanding during the year. The effect of the exercise of stock options and warrants based on the fully diluted number of shares of 20,438,388 (1998 – 19,531,917) is anti-dilutive.

d) Stock Options

Stock options entitling the holder to purchase Common Shares of the Company have been granted to the officers, directors, employees and certain consultants of the Company. At December 31, 1999, options to purchase 1,596,000 (1998 – 1,761,000) Common Shares were outstanding, having an exercise price range of $0.18 to $0.45 per share. Options are exercis-

able for a period of five years and vest over a period of four years from date of grant. Stock options expire as follows:

Year of Expiry	*Number of Options*	*Average Price*	*Price Range*	*Expected Proceeds*
2000	85,000	$0.40	$0.40	$ 34,000
2002	842,000	0.45	0.45	378,900
2003	344,000	0.34	0.32 - 0 .40	116,650
2004	325,000	0.18	0.18	58,500
	1,596,000			$ 588,050

At December 31, 1999, 1,271,000 stock options are vested with a weighted average exercise price of $0.42.

e) Unit Special Warrants

On June 18, 1998 the Company closed a private placement financing for gross proceeds of $500,000 from the issue of 1,000,000 Unit Special Warrants priced at $0.50 each. Each Unit Special Warrant was issued for cash and was comprised of one Common Share Warrant and one Common Share Purchase Warrant. Each Common Share Warrant was convertible into one common share, for no additional consideration, on the earlier of June 18, 1999 or five days after issuance of a receipt by the Regulatory Commissions for a final prospectus. The receipt was obtained on October 18, 1998. One Common Share Purchase Warrant plus $0.60 entitles the holder to purchase one additional common share of the Company until June 18, 1999.

The Company issued 200,000 Broker Purchase Warrants to purchase 100,000 Common Shares at $0.50 each and 100,000 Common Shares at $0.60 each until June 18, 1999 to the Agents of the private placement. At June 18, 1999 the Broker Purchase Warrants expired, and no Broker Purchase Warrants were exercised.

On June 9th, 1999, the Company received regulatory approval to extend the expiry of the Common Share Purchase Warrants to June 18, 2000. At December 31, 1999, no Common Share Purchase had been exercised.

6. *Income Taxes*

The income tax provision differs from the expected result obtained by applying the effective tax rate of 45.23% on Canadian operations and 25% on US operations (1998 - 45.23% and 25% respectively) to the loss before taxes as summarized below:

	1999	*1998*
Loss before income taxes	$ 76,566	$ 3,949,932
Expected tax recovery	(74,174)	(1,271,392)
Non-deductible crown charges	1,035	-
Non-deductible depletion	14,731	13,197
Unrecorded benefit of accounting losses	58,408	1,258,195
Actual income tax recovery	-	-

At December 31, 1999, property, plant and equipment with a net book value of $520,654 (1998 - $553,589) has no cost basis for income tax purposes.

The Company has the following approximate balances available to be applied against future Canadian income for tax purposes. The amounts are deductible at the annual rates included:

	Rate	*1999*
	%	*$*
Canadian exploration expense	100	6,135,000
Canadian development expense	30	15,000
Canadian oil and gas expense	10	600,000
Undepreciated capital cost	20-30	232,000
Unamortized share issue costs	20	216,000

In addition, the Company has loss carry-forwards for Canadian income tax purposes of approximately $2.9 million which expire from 2000 to 2006 and US loss carry-forwards for income tax purposes of approximately US $3.1 million which expire from 2009 to 2013. The benefit of these losses and tax deductions have not been recognized within the financial statements.

7. Other Income

	1999	*1998*
Other income consists of:		
Marketing	$ 396,181	$ 552,612
Interest	4,154	6,388
Royalties	9,263	15,398
Gain on sale of assets	122,134	-
Other	9,770	13,493
Total	$ 541,502	$ 587,891

Marketing income consists of proceeds realized by the Company from the marketing of crude oil, pursuant to a Crude Oil Sales Contract granted by the Republic of Iraq under the United Nations Security Council Resolution 986 – Oil for Food Program.

Effective December 31, 1999, the Company purchased all of the units of an oil and gas partnership for $1,107,800. The Company immediately sold the oil and gas assets of the partnership for net proceeds of $1,229,934 and realized a gain of $122,134.

8. Prospect Evaluation Expenses

These expenses are comprised of $104,049 (1998 - $368,096) related to the evaluation of significant potential international business ventures in Iraq. Such costs include: travel, consulting fees, legal expenses, data acquisition, documentation, communication, banking fees and charges, and marketing costs. In 1999, the Company capitalized $143,965 (1998 - $56,735) related to prospect costs.

9. Segmented Information

Oilexco's activities are conducted in two geographic segments, Canada and United States. All activities relate to the exploration, development and production of oil, natural gas and liquids.

	1999 Revenues	*1998 Revenues*	*1999 Net Capital Assets*	*1998 Net Capital Assets*
Canada	$ 433,338	$ 392,091	$ 2,132,243	$ 2,141,930
United States	684,134	254,064	2,315,122	2,579,366
Totals	$ 1,117,472	$ 646,155	$ 4,447,365	$ 4,721,296

Corporate Information

AUDITORS
Arthur Andersen LLP
Chartered Accountants
Calgary, Canada

BANKERS
Royal Bank of Canada
Calgary, Alberta
Canadian Western Bank
Calgary, Alberta

LEGAL COUNSEL
Field Atkinson Perraton
Calgary, Alberta

TRANSFER AGENT AND REGISTRAR
Montreal Trust Company of Canada
Calgary, Alberta

SHARE LISTING
Canadian Venture Exchange
Symbol: OIL

HEAD OFFICE
Suite 1710, 639 - 5 Avenue SW
Calgary, Alberta T2P 0M9
Telephone: (403) 262-5441
Facsimile: (403) 263-3251
Internet: www.oilexco.com

DIRECTORS

Arthur S. Millholland (1)
President
Oilexco Incorporated
Calgary, Alberta

John F. Cowan (1) (2) (3)
Vice President
CanEnerCo Ltd.
London, Ontario

Jay Zammit (1) (3)
Partner
Burstall Ward
Calgary, Alberta

D. B. (Don) Copeland (1)
President
Pangman Resource International Ltd.
Calgary, Alberta

Brian L. Ward
Chief Financial Officer
Oilexco Incorporated
Calgary, Alberta

(1) Member of the Audit Committee
(2) Chairman of the Audit Committee
(3) Member of the Compensation Committee

MANAGEMENT

Arthur S. Millholland, P. Geol.
President and Chief Executive Officer

Brian L. Ward
Chief Financial Officer

Abbreviations

Bbls . . . . barrels
Bcf . . . . billion cubic feet
BOE . . . . barrels of oil equivalent
. . . . (10 Mcf = 1BOE)
Mbbls . . . . thousand barrels
Mcf . . . . thousand cubic feet
Mmcf . . . . million cubic feet
NGLs . . . . natural gas liquids
WTI. . . . . West Texas Intermediate
(a crude oil used as a reference for pricing)
/d . . . . per day

Annual General Meeting

The Annual General Meeting of the Shareholders of Oilexco will be held on Thursday, June 22, 2000, at 3:00 pm in the Barber Room of the 400 Club, 710 – 4 Avenue SW, Calgary, Alberta.

Chapman and Associates

Printed in Ca